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Building a Family Business to Last

If you'd like your enterprise to be around for a long time, construct a foundation of passion, clear communication, and rock-solid ethics

by [James Olan Hutcheson](#)

Forget for a moment the dismal statistics about family business survival. Consider the hundreds of family businesses that have persevered, not just for a generation, but for centuries. You may not be in a position to challenge what may be the world's oldest continuously operating family business, Japanese hotel Ryokan Hoshi, which was founded in 717 and today is run by the 46th generation of the Hoshi family. But such extreme cases do prove that family businesses—possibly including yours—can last a very long time.

If you want your family business to endure, strengthen it from the foundation up. Making a conscious choice to create a long-lived company is the first step in building a strong foundation. It takes some luck to survive for generations, certainly, but these things don't happen by accident either. It starts with your intentions.

PASSION NEEDED

Realize that seeking a long life isn't the only valid choice. Some businesses are appropriately designed for short life.

Depending on the opportunity that presents itself, it may be best for all concerned if you design a company that will start fast, grow quickly, and then be sold or merged with another. Ask yourself whether you truly want to commit yourself and your company to the goal of a long and independent life.

Once you've made the decision, building passion should be your next objective. You may have all the passion you need, but you won't be around forever. Someone must engender passion in younger generations.

Start by exposing children to your business. Take them to work with you. Tell them about the things that you love in your business. Mentor them to have a romance with the enterprise.

Then, make sure they have the training and experience needed to give that passion balance. Encourage and enable them to get appropriate university degrees. Enforce a requirement that future family business leaders get complementary work experience in other companies before taking permanent jobs in the family enterprise. Broad and deep preparation, both mental and emotional, is required of leaders of long-lived family businesses.

GOOD RELATIONSHIPS

At the same time, make sure your business has good governance in place. This means creating a board with a significant number of outside directors. It means building long-term relationships with nonfamily advisers who are both expert and independent, and won't just tell you what you want to hear. It means having policies that create accountability.

In practical terms, if a family member executive or director isn't acting in the company's best interests, you need a way for the board to replace him or her. Otherwise, you don't have true accountability, and your company's future may be constrained.

Longevity also springs from having a robust legal framework. They may seem like mere paperwork, but documents such as shareholders' agreements and compensation policies are actually vaccinations against the viruses of confusion and

contention that can eat up family businesses experiencing succession, conflict, or other stress.

COMMUNICATION IS VITAL

Neglecting wills, buy-sell agreements, or dividend payout policies is akin to inviting disease into your home. Keep your company healthy with prenuptial agreements, employment policies, and other corporate documents defining the strong and lasting business structure that you desire.

Communication is the rebar that runs through the cement in this foundation. If you don't effectively express the commitment, passion, accountability, and rules guiding your business, how can you expect others to buy in? And if you don't understand the extent to which others have accepted your commitment and the rest as their own, then you are building blind and headed for trouble.

Excellent communication begins not with speaking, but with listening. By carefully and consciously hearing the thoughts and feelings of the people you want to influence, you gain the knowledge you must have to cast your expressions so that they are understood. Echoing or restating the statements of others is a good basic tool for reassuring them that you are listening, as well as alerting both of you to potential miscommunications or misunderstandings.

GO FOR CLARITY

After you have listened and understood what you are up against, you are ready to express yourself. Everyone has heard that the three vital attributes of real estate are location, location, and location. Similarly, a great writer once said that three things are most important in communication: clarity, clarity, and clarity.

If you strive for nothing else in your communication, strive to be clear. You don't want people signing up for one course of action when you intend another. And you don't want anyone on board who doesn't know where you are headed. Be simple, be brief, and be clear.

Remember the old statement that actions speak louder than words. All the speeches, memos and mission statements in the world won't amount to much if your behavior doesn't exemplify the values and objectives you want to promote.

You can't call for the sacrifices required to build an enduring company while you are draining the corporate coffers to pay yourself a rich salary. The best way to make your communications authentic is to embody them in your everyday life.

BE FAIR

Long business life is built on more than profits and policies. At the heart of every centuries-old company is a core of character. We exist in a world of law, and no enterprise can expect to skirt the rules for long. To exist for centuries, set up your company on a firm basis of ethical behavior.

Definitions of fairness and justice vary widely, but whatever they mean to you, there is a universal test to indicate when you may be about to go outside the lines. That test is this: Would you want to read or see a news story describing your behavior for the world? You can use this to test your own behavior and that of your fellow leaders and employees.

Family businesses grow into all sorts of enterprises. Some are simple and never expand beyond a single location. Others span the globe and have interests in a broad variety of fields.

Whatever your business grows into, it will benefit from having a strong foundation. And without that robust footing, it may never grow to maturity at all and wind up as just another sad story of a short-lived family firm.

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